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October 8, 2013

Bill Grant
Deputy Commissioner
MN Department of Commerce
Division of Energy Resources
85 7TH Place East, Suite 500
St. Paul, MN 55101

RE: Comments on the Value of Solar Methodology

Dear Deputy Commissioner Grant:

Otter Tail Power Company ("Otter Tail") appreciated the perspectives and information provided by the MN Department of Commerce, Division of Energy Resources ("Department") and Clean Power Research on behalf of the Department at the Minnesota Value of Solar Tariff Methodology ("VOS")—Workshop 2, on October 1, 2013. Otter Tail understands the importance of the VOS tariff methodology to the future of solar-generated electricity developed through the VOS process.

Otter Tail respectfully submits the following comments for consideration in the development of the VOS tariff methodology.

Otter Tail would like to preface its responses to the specific questions with some introductory comments. The questions below would involve significant staff time to develop complete and detailed answers. Given the time constraints, Otter Tail's responses to the questions are principal in nature rather than detailed comments/calculations.

Below are Otter Tail's responses to the questions posed by the Department.

- (1) For the value components identified in the Oct. 1 CPR/Commerce presentation on slides 22-24 (below):
 - (a) What value components not required by statute should be included or excluded and why?

Any claimed value components (aka benefits and costs or net benefits) not required by the state should be excluded if they are: (a) not costs avoided by the utility or (b) not "based on known and measurable evidence of the cost or benefit of solar operations to the

utility” (Minn. Stat. 2013 § 216B.164, Subd. 10 (f)). To do otherwise would increase costs to Otter Tail electric customers, especially those who do not participate in the VOS program.

- (b) How should the value components (both required and not required) be calculated and why is this preferable to other approaches? Please be as specific as possible.

The required individual benefit and cost components at the specific utility should be leveled on a \$/kWh basis utilizing the best available solar production over the agreed study period.

- (c) What is the estimate of the value components’ expected value range in \$/kWh.

Otter Tail is not able to provide an estimate of the range of expected values in the limited time available. However, based on the current direction, it is likely the rate will be greater than Otter Tail’s current on-peak rates in the Small Power Producer Rider-Time of Day Purchase Rates¹, Section 12.03.

- (d) Are there other categories not on the table that should be included? If so, answer questions (a), (b), and (c) above.

At this time, Otter Tail does not have any additional categories that should be included.

- (2) Any additional feedback on the Commerce/CPR approach presented on Oct 1st?

Yes. We have four additional feedback items which include comments on cross-subsidization, contract valuation and performance, non-dispatchable avoided capacity value, and placeholder values for value components required by statute.

The issue of cross-subsidization has been brought up as a point of discussion. That issue was discussed by Clean Power Research (“CPR”) in its presentation on October 1, 2013. CPR stated that because of the proposed “buy-all / sell-all” methodology, cross-subsidization would not take place. While that may be technically true, the VOS methodology may have the potential to increase costs to all Minnesota customers. It is Otter Tail’s position that the VOS methodology should not increase costs to any Otter Tail electric customers, especially those who do not participate in the VOS program.

Second, the valuation of solar analysis should take into consideration that the value being quantified is not the value of the Photovoltaic (“PV”) system. It is the value of the contract that conveys to the utility the output of the PV system. Otter Tail is concerned about the performance over the life of the contract for the VOS participants because the

¹ https://www.otpc.com/media/102603/MN_1203.pdf

pricing contemplated is a levelized price (i.e. the counterparty is paid more than the current value in the early years and less than the then-current value in the later years). When Otter Tail evaluates and procures PPA's we consider contract terms that will provide adequate assurance of performance. Such contracts require warranty coverage, cost-of-cover damages, credit assurances (e.g. letters of credit for those without adequate credit quality), step-in rights, etc. The absence of these conditions would increase the risk of non-performance over the full term of the contract – which is a risk to ratepayers.

Third, Otter Tail suggests the value of solar generation component should consider MISO's methodology for non-dispatchable generation capacity credit. This information is available from MISO's Business Practice Manual, Resource Adequacy. This is the approach Otter Tail must utilize when contemplating and securing other generation resources.

Finally, for any item that the statute requires to be included in the VOS methodology, Otter Tail recommends the value of zero for any item that does not have a current value (e.g. currently measurable, quantifiable).

Should you have any questions or need any further information, please feel free to contact me at your convenience at either bhdraxten@otpc.com or (218)739-8417.

Thank for your consideration of these comments.

Sincerely,

/s/ *BRIAN DRAXTEN*

Brian Draxten
Manager, Resource Planning

wao
By email